

Washington State Ferries
Quarterly Business and Financial Update

Briefing Paper
Prepared for the September 2003
Transportation Commission Meeting

Prepared by: Bill Greene, Director of Program Management
Reviewed by: Sam Kuntz, Chief Financial Officer
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PURPOSE:

To provide an update on the current business operations and financial performance of Washington State Ferries (WSF) for the year and biennium ended June 30, 2003 and a look forward at fiscal year 2004.

ACTION/OUTCOME:

This briefing is for information only and no action will be required of the Commission.

BACKGROUND:

The Commission has approved a strategic business plan for WSF that provides a balanced approach for bringing long-term financial viability to WSF operations, and a capital plan that will provide for the timely replacement, preservation and modernization of its assets. The successful implementation of these plans was encouraged and assisted by the Legislature, which passed enabling legislation and funding for WSF during the 2003 session.

DISCUSSION:

WSF will report on the current status and financial results of implementing these strategic operating and capital plans. The briefing will cover the following topics:

- Revenue and ridership achieved in fiscal year 2003, and early trends in fiscal year 2004.
- Current status on implementing new revenue initiatives including the RFP for new food concessions, redevelopment of Pier 52 in Seattle, advertising and parking lots.
- A financial report of our operating and capital expenditures for the 2001 – 2003 biennium with a focus on fiscal year 2003 compared to budget.

RECOMMENDATION:

This briefing is for information only.

MARITIME SECURITY INITIATIVES

Briefing Paper
Prepared for the September 2003
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Prepared by: Scott Davis, Safety Systems Manager/DP, Washington State Ferries
Reviewed by: Gary Baldwin, Director of Human Resources, Washington State Ferries
Approved by: Mike Thorne, CEO, Washington State Ferries

PURPOSE:

To provide an update on Washington State Ferries Security Initiatives to comply with U.S. Coast Guard Interim Final Rules implementing the Maritime Transportation Security Act of 2002.

ACTION/OUTCOME:

This briefing is for information only. No action will be required of the Commission at this time.

BACKGROUND:

On July 1, 2003, the US Coast Guard issued comprehensive security regulations for the maritime industry. These interim final rules implement significant portions of the Maritime Transportation Security Act of 2002 (MTSA) and became effective upon publication. The rules require vessel and facility operators to complete security assessments, develop security plans, and implement security measures and procedures, with full compliance by June 30, 2004. WSF provided comments to the Coast Guard on the regulations detailing the need for any WSF security plan to consider operational viability and funding implications. WSF also commented on the aggressive Coast Guard regulatory compliance timeline and WSF's intention to submit an alternate compliance plan that considers WSF's unique operations.

WSF has commenced the security assessment process required in the regulations and is using the firm of Booz, Allen, Hamilton through FTA funding to produce the assessment document. WSF is working with the Coast Guard at both the local and national level and with the Washington State Patrol to develop a security plan. On 21 August WSF submitted an application for the third round of port security grants amounting to \$22.2 million dollars.

DISCUSSION:

WSF will provide an overview of maritime security issues related to Washington State Ferries operations. Specifically, the briefing will cover the following topics:

- Regulatory and compliance timelines.

The aggressive nature of the following timeline cannot be over stressed. The analysis, planning, development, and implementation of these comprehensive regulations are an enormous undertaking on an extremely tight timeline. The MTSA specifically excluded this regulatory initiative from normal administrative procedures and timeline in order to ensure the desired expedience.

<i>July 1, 2003</i>	<i>Temporary Interim Rules published; Effective date of regulations</i>
<i>July 23, 2003</i>	<i>Public Meeting in Washington, D.C.</i>
<i>July 31, 2003</i>	<i>Deadline for submission of written comments</i>
<i>October 2003</i>	<i>Projected publication of Final Rule</i>
<i>November 2003</i>	<i>Effective date of Final Rules (30 days from publication)</i>
<i>Dec. 29, 2003</i>	<i>Deadline for submission of security plans</i>
<i>July 1, 2004</i>	<i>International and domestic deadline for implementation of MTSA regulations & ISPS requirements</i>

- **WSF Comments to the Coast Guard regarding the Regulations.**
The following is a summary of the comments WSF provided to the US Coast Guard on the security regulations:
 - **Operational Viability**—*Significant reductions in revenue could result from any security measure put in place that impedes WSF’s capability to maintain its current daily throughput of customers. A significant reduction in revenue could also result from any security measure put in place that so negatively impacts the WSF customer base that customers simply stop, or reduce, their use of the system.*
 - **Cost/Funding Implications**—*The Coast Guard indicated that the rulemaking was exempt from the Unfunded Mandates Reform Act of 1995 due to its national security implications. The fact remains that there is a real cost of implementing security measures, and it is significant. If the federal government believes there is a significant maritime security risk, then the federal government should fund maritime security measures at a level commensurate with the relative security risk assigned to this transportation mode. In response to the Washington State budget deficit WSF proposed, and the state legislature and governor endorsed, a business plan with a responsible commitment of WSF operating cost reductions to support the state’s fiscal initiatives. Success of this business plan is considered a must for the state of Washington and is essential to the long-term capitalization of the WSF aging fleet and WSF’s continued viability. The new security rules have the potential to hamper the implementation of this business plan. WSF intends to propose security measures that it can afford and believes contribute most significantly and directly to security risk reductions.*
 - **Regulatory Compliance Timeline**—*WSF appreciates the urgency of developing and implementing maritime security plans as a means to provide increased levels of safety for our customers, employees and physical assets. However, WSF will find it extremely difficult, if not impossible, to put in place all of the security measures envisioned by these regulations across our system in the time allotted. WSF plans to submit a compliance plan that we believe satisfies the intent of the regulations in conjunction with a timeline for implementation that we believe is attainable and addresses the measures in an appropriate priority ranking.*
 - **Alternative Compliance Plan**—*There are attributes, when taken in combination, which make WSF’s operation unique among U.S. ferry operators. One of these unique attributes is the open, free-flowing nature of rapidly moving walk-on passengers and*

vehicles on and off the vessels. WSF plans to take advantage of the option, to submit an “Alternative Security Program” for MTSA compliance purposes to fulfill WSF’s unique operating and service characteristics. WSF would encourage the Coast Guard to either allow cognizant COTP approval of alternative programs for operators whose operations are contained exclusively within the COTP zone, or establish a protocol for the direct involvement of the local Coast Guard COTP during the approval process.

- Issues of significance and/or importance.
 - **Passenger and Vehicle Screening**—WSF has discussed with the Coast Guard the provision in the regulations for “public access areas” and determined that if properly monitored in the terminals and on the vessels has the potential to limit requirements for passenger screening. According to the Coast Guard there will be a requirement for an as yet undetermined level of vehicle screening, but there remain a number of statements in the regulations regarding vehicle screening and other elements that require continued clarification and discussion with the Coast Guard to determine the precise intent and application of the regulations for WSF.
 - **Costs of Security for WSF**—A thorough and comprehensive estimation of costs of implementing the MTSA regulations will need to be developed. These estimates will need to be refined as a consequence of continuing dialogue with the Coast Guard as WSF’s security plan is shaped. The actual costs will likely not be known until the Coast Guard has approved the WSF security plan.
 - Recent Port Security Grant Applications**—WSF received \$9.4 million dollars in round two of the port security grant process. On 21 August WSF applied for \$22.2 million dollars in round three of the port security grants. The grant request specifically targeted elements found in the regulations. The request focused on hardening vessel and terminal “restricted areas” and the monitoring of “public access areas”. If the application is successful, these grants will certainly support the WSF’s final security plan. The grant awards should be made sometime in October. The grants awards do NOT include associated operational / ongoing (X-5) dollars.
- The WSF plan forward.

WSF is taking a number of actions to position ourselves to effectively and efficiently address the sweeping nature of these new regulations:

 - **Compliance Team**—WSF has formed a compliance team of senior vessel, terminal, and maritime operations personnel to work with the Coast Guard. The team will finish the on site assessments this month and the FTA is funding the consulting team of Booz, Allen and Hamilton to produce the final assessment document. The team will then draft the alternate security plan for submission to the Coast Guard.
 - **Policy Framework**—WSF has dedicated a select team of directors to act as the policy committee, which will consider input from the compliance team and formulate the corporate strategy for final executive concurrence.
 - **WSF Security Committee**—The committee working level of WSF, US Coast Guard and Washington State Patrol personnel continue to meeting regularly, including phone conferences with US Coast Guard headquarters, to develop a viable security plan, resolve conflicts and establish a mutually acceptable approach to satisfying the requirements of the MTSA implementing regulations.

- o ***Commission Updates***—WSF makes a commitment to keep the Commission informed as we progress and as the implications of the requirements become more clear.

RECOMMENDATION:

N/A.

For further information, contact Mike Thorne, CEO, Washington State Ferries at 206-515-3401.